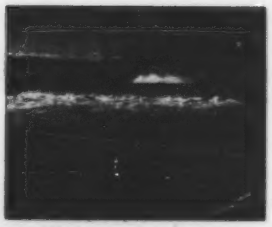
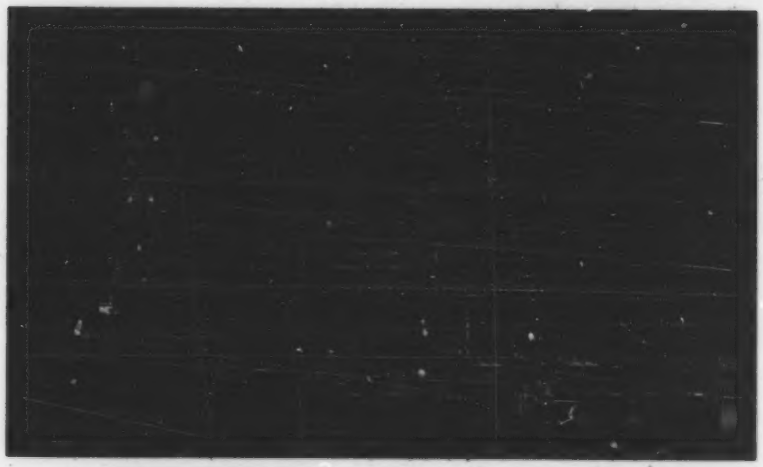
YUKON ENERGY CORPORATION





REPORT FOR THE YEAR ENDED DECEMBER 31, 1990

92-01346/

[redacted]

The Honourable Maurice Byblow
Minister, Yukon Development Corporation
Government of the Yukon
Whitehorse, Yukon
Y1A 2C6

Dear Sir,

I am pleased to submit to you the Annual Report of the Yukon Energy Corporation, which details the financial position of the corporation and provides discussion and analysis of issues for 1990 and beyond.

On behalf of the Board,

Fred Berger,
Chairperson,
Board of Directors

THE YUKON ENERGY CORPORATION (YEC) IS A WHOLLY OWNED SUBSIDIARY of the Yukon Development Corporation, which is, in turn, a Crown corporation of the territorial government. YEC generates and transmits electricity to meet the needs of Yukon people. It came into existence on April 1, 1987, when the territory assumed ownership of generation and transmission assets that had previously been the property of Northern Canada Power Commission.

YEC is accountable to the people of the Yukon through its Board of Directors. The Board is made up of individuals who are appointed by the Executive Council of the territorial government. The Board is responsible, through the Minister, to the Legislature.

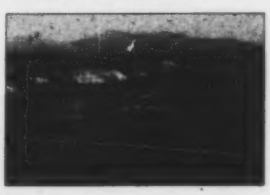
The Board of Directors ensures that YEC operates as a profitable and responsible enterprise, whose earnings can be used to secure capital for necessary expansion.

Day-to-day management of the Corporation's assets is carried out under contract by The Yukon Electrical Company Limited (YECL); however, the people of the Yukon retain ownership and responsibility for broad policy direction. Specific objectives of the Yukon Energy Corporation are:

- to provide Yukoners with reliable and sufficient supplies of power and energy, both now and in the future;
- to provide that power and energy as efficiently and economically as possible;
- to promote economy and efficiency in the use of electricity;
- to function as a fiscally responsible commercial entity.

The electricity generated and transmitted by YEC facilities provides 94 percent of the territory's power. The remaining six percent is supplied by YECL facilities such as those in Pelly Crossing and Swift River. In addition, the Corporation has facilities for distributing electricity directly to approximately 15 percent of its retail customers. There are roughly 1500 of these customers, located in Mayo, Dawson and Faro. Some isolated customers are also served directly from the transmission lines.

Hydro-electric plants now provide the majority of the territory's electrical requirements. They reduce the dependence of the Yukon on outside sources of power.



THE PAST YEAR HAS BEEN AN ACTIVE ONE FOR THE YUKON ENERGY Corporation. Of first importance was the Corporation's Strategic Plan, which was released to the public in November.

The Strategic Plan lays the groundwork for operations into the next century and is a result of many months of development work. Preliminary planning identified the key issues facing the Corporation. In the fall, YEC carried out a tour of the communities for a public review of these issues. Views and information received during the tour were incorporated into the final draft of the Strategic Plan. This final version was adopted by the Board of Directors and the Executive Council of the territorial government. The plan was tabled in the Yukon Legislative Assembly in November.

YEC was involved in a number of other important initiatives during the year, including improvements to the viewing facility and interpretive centre at the Whitehorse Rapids Fish Ladder. This was a cooperative effort, funded primarily by grants from the federal and territorial governments. The facility is operated by the Yukon Fish and Game Association and had a very successful year, with over 25,000 people visiting the site.

Another major accomplishment was the removal of a significant amount of PCB-contaminated oil that had accumulated in electrical equipment. The removal process was successfully completed in August and was subject to public review and consultation.

Public hearings were also conducted to discuss the routing of YEC's proposed transmission line from Mayo to Dawson City. In addition, the Corporation completed further reconnaissance for possible additions to the Whitehorse-Aishihik-Faro (WAF) system. The year ahead will see the Corporation making decisions on these matters.

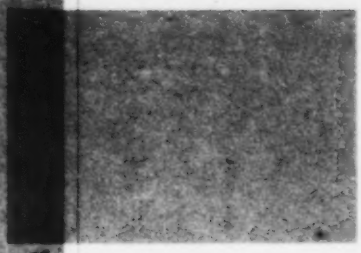
In the past year, YEC has paid particular attention to balancing ever-increasing energy needs with environmental concerns. The substantial growth of the territory's electrical requirements as well as rising oil prices gave emphasis to this dilemma.

The Corporation made significant investments to improve and upgrade the existing system, to ensure supplies of reliable electricity for Yukon consumers.

YEC also began developing programs for demand side management. It is hoped that careful maintenance of the existing equipment and reduced energy use will allow YEC to defer or delay expensive new capital projects.

In closing, we would like to express out whole-hearted thanks to all who participated in our public meetings.

Regular upgrading and maintenance help bring lower operating costs and improved service for YEC consumers.



The Strategic Plan

YEC's Strategic Plan for 1991-95 sets out the corporation's mandate and direction. This will guide activities during that time and lay the foundation for operations into the next century. It is based on five main objectives.

1: To be financially responsible for the long term

The Yukon Energy Corporation is required to be fiscally responsible and self-financing. YEC is expected to operate as a viable business earning a commercial rate of return.

The money necessary for upcoming projects is significant and it is important that the Corporation's financial health allows it to carry out any necessary work and minimize rate increases.

2: To be responsible toward the environment

Any new power development will have some impact on the environment; the challenge is to choose new sources of power that will have the least impact.

3: To reduce diesel use wherever possible

Existing energy demands are already growing beyond the territory's present hydro capacity. This means that diesel generation is required to provide the shortfall. It is important for environmental and financial reasons to reduce the dependence on imported resources like diesel fuel.

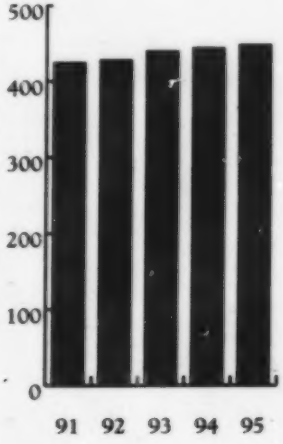
4: To encourage more efficient use of energy

Rising energy demands and environmental concerns make it imperative to develop a comprehensive program for the conservation, better management and reduction of power use. Demand side management programs are the best way to defer expensive construction projects, reduce long-term costs and minimize environmental impact.

5: To keep electricity rates stable for the long term.

By improving the output of existing facilities, developing small-scale hydro projects suited to Yukon needs and reducing power use through demand side management programs, rate increases can be kept to a minimum.

PROJECTED SALES
in gigawatt hours



In September, YEC carried out public review of the five-year Strategic Plan, then in draft stage. Members of the public identified the following issues as being most important:

- rate increases should be kept to a minimum;
- careful evaluation of energy needs must be done before any development work is done;
- the environment must be protected;
- the amount of energy consumed must be reduced;
- alternative sources of energy should be investigated;
- reliable supplies of good-quality power must be maintained.

Public input was incorporated in the final draft and the Strategic Plan was tabled in the Yukon Legislative Assembly in November.

Regulatory Matters

In 1990 the Corporation received the final decision of the Yukon Utilities Board (YUB), which resulted in a reduction in rates effective April 1, 1990.

The basic parameters of rate setting and general policy are provided by the Yukon government through the Commissioner in Executive Council. The Corporation intends to apply to the YUB every two years for a review of its rates, with a view to setting its rates for the subsequent two-year period. YEC expects to submit its capital expenditure plans for the next several years in the fall of 1991.

The application process involves providing the Yukon Utilities Board with projected revenue requirements of the Corporation and the rates that will allow YEC to meet these requirements.

Despite the Yukon's isolation and sparse population, electricity rates in the territory compare favourably with those charged by other utilities in Canada.

Comparison: Electricity Rates

(cents per kilowatt hour: as of December 31, 1990)

Grande Prairie, Alberta	7.2
Banff, Alberta	6.5
Toronto, Ontario	7.7
Anchorage, Alaska	9.4
WHITEHORSE	7.1
Edmonton, Alberta	5.9
Yellowknife, NWT	10.1
Montreal, Quebec	5.3
Juneau, Alaska	11.4
Vancouver, BC	6.6

As forecast in 1989, total Yukon electricity sales were expected to increase by an average of one percent per year throughout the 1990s.

MAP LEGEND
Generating Stations
Diesel Δ
Hydro •

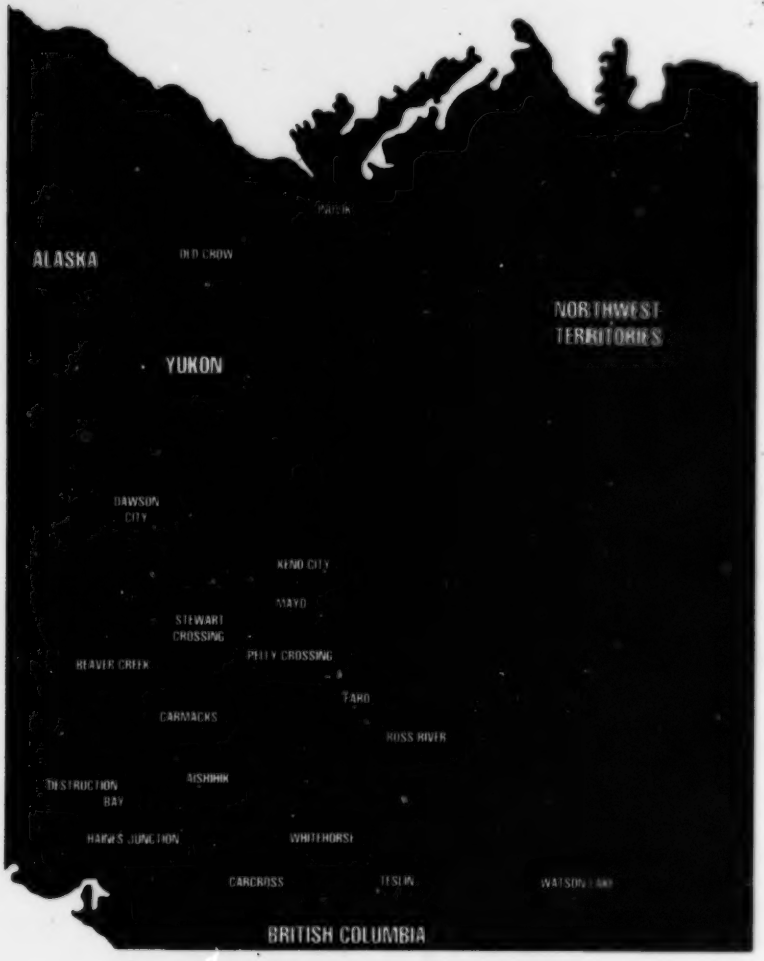
YEC ——
YECL ——

YEC's major assets are those that produce and transmit power in bulk, including:

•Hydro-electric generating at
Aishihik (2 units, 31 MW)
Whitehorse (4 units, 40 MW)
Mayo (2 units, 5 MW)

•Diesel electric generators at
Whitehorse (6 units, 22 MW)
Faro (6 units, 11 MW)
Mayo (2 units, 1 MW)
Dawson (5 units, 3 MW)

•High voltage transmission lines connecting generation plants and load centres, including 497 kilometres at 138 kV; 65 kilometres at 69 kV plus low-voltage distribution and transmission lines.



Power generation in the Yukon is divided into five separate systems: Whitehorse-Aishihik-Faro (WAF), Mayo, Dawson City, Watson Lake and isolated systems.

Development of new transmission facilities along transportation routes between communities will be examined by YEC. This could reduce diesel consumption and allow expansion of the territory's interconnected grid system.

The existence of surplus hydro capacity at Mayo has created an opportunity for new transmission lines to Dawson City. This project, which could be complete by the fall of 1992, would reduce diesel dependency in Dawson City and Stewart Crossing and would mean substantial savings for Yukon consumers.

THE ACCOMPANYING FINANCIAL STATEMENTS OF THE YUKON ENERGY Corporation are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada and applied on a basis consistent with that of the preceding year. The Corporation's accounting policies are described in the Summary of Significant Accounting Policies.

The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to December 31, 1990. The information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls, designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis.

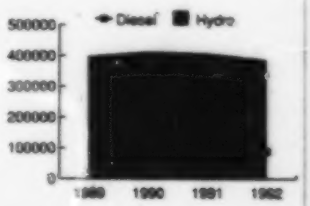
The operating division, managed by CU/YECL, is audited separately by Price Waterhouse, Chartered Accountants, of Edmonton, Alberta. Price Waterhouse reports to the Yukon Energy Corporation's Board of Directors and meets with the Audit Committee. The Auditor General of Canada utilizes the work of Price Waterhouse in forming his opinion on the financial statements. The Auditor's Report on page 12 outlines the scope of his examination and opinion.

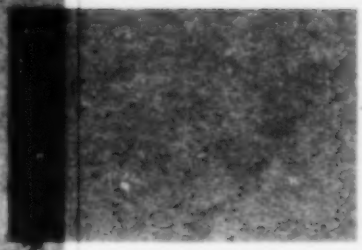
The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The auditors have direct and full access to the Audit Committee.

THE AUDIT COMMITTEE IS A STANDING COMMITTEE OF THE BOARD OF Directors and receives its responsibilities from them. The committee's duties include review of the financial statements, reviewing the scope of the external audit and discussing any major observations made by the auditor during the course of the audit.

During the year the Audit Committee met with staff of the Auditor General of Canada, the staff of Price Waterhouse and the Yukon government's Internal Audit Department. The information contained in this annual report has been reviewed by the Audit Committee and recommended for approval by them. The Audit Committee has had full access to the auditors, both internal and external.

DIESEL vs HYDRO
in megawatt hours
While hydro capacity has remained fairly static, increased energy demands have meant an increased use of expensive diesel fuel.





Capital Expenditures

Capital expenditures in the coming years will be significant. The 1991 capital requirement will be in the order of $6 million, more than half of which is for major repair and upgrading projects.

These involve improvements to the sub-stations at Faro and Champagne, plus work at the various hydro facilities. This includes work on the Mayo spillway, intake and powerhouse plus repairs at Whitehorse Rapids and erosion repair and spares at Aishihik.

Major additions to diesel generation equipment will also be needed to keep up with growing power demands, especially since new hydro developments will not be in service until late 1993 at the earliest.

The proposed transmission line to Dawson City from Mayo was originally estimated to cost $16 to $18 million but may now cost $20 million or more. This increase is due to increased line length and technical complexities. If it proceeds, the project will be reviewed at appropriate intervals and should be completed in late 1992.

YEC may possibly participate in the Surprise Lake project, near Atlin, at an estimated cost of up to $40 million (including transmission). YEC could provide capital by becoming an equity partner, or may purchase power surplus to BC Hydro's needs, which is currently estimated at about one megawatt. This project could supply five to six megawatts of capacity to the Whitehorse-Aishihik-Faro (WAF) grid by 1994.

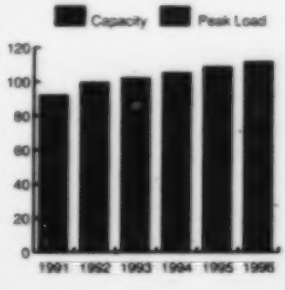
Transmission and Distribution

Essential maintenance and upgrading work was carried out on the Mayo-Elsa-Keno transmission line to keep the line serviceable. Native poles were replaced on the Dawson City-airport line and repair work started on the substation in Faro, with completion expected in 1991.

Hydro Reconnaissance

The search for potential hydro sites continued at a steady pace through 1990, with reconnaissance work being carried out from Whitehorse to east of Watson Lake. The Drury Creek site was examined and follow-up work was done. General reconnaissance identified no sites in the Watson Lake area but Morley River, east of Teslin, merited further work.

YEC CAPACITY
in megawatts



A site on McNaughton Creek, a tributary of the Swift River, showed potential to serve the southeast Yukon. This could possibly — with new transmission — supply the WAF grid. Moon Lake, near the South Klondike Highway in British Columbia, was identified as a potential project to supply winter power to the WAF system.

Based on 1990, priorities for further work in 1991 include Surprise Lake, Drury Creek, Morley River and Moon Lake.

Sales

During 1990 the Corporation sold 414,681,000 kWh of energy. This represents an increase of eight percent over 1989 sales. These amounts are also significantly higher than those projected for the year. Increased sales resulted from a number of factors, including colder weather and a large increase in industrial sales.

Revenues

Revenue also increased significantly due to increased sales. Total for the year amounted to $21.3 million, a 14 percent increase over the 1989 revenue of $18.7 million.

Operating Expenses

Increased diesel generation to meet the increased energy demand has resulted in a significant rise in diesel costs. Maintenance costs have also increased because of the greater wear and tear on diesel generators. Depreciation expense also rose because of expenditures on capital improvements. In the long run these capital expenditures will result in lower operating costs and improved service.

Financial Expenses

The Corporation paid $4.6 million in interest expense in 1990 as compared to $4.5 million in 1989. This money is paid to the Government of Canada and the Yukon Development Corporation. The Government of Canada debt amounts to $51.1 million and is paid at rates which are lower than those currently in force. Debt to the Government of Canada was reduced $1,400,000 during the year by principal repayments, made in accordance with the Loan Agreements with Canada.

The Corporation is considering significant capital expenditures in the next several years. Interest expense could increase as a result of any consequent borrowings. With the decline of market interest rates over the year the Corporation will be closely monitoring the financial markets to ensure that future borrowings enjoy the most favourable rates possible.

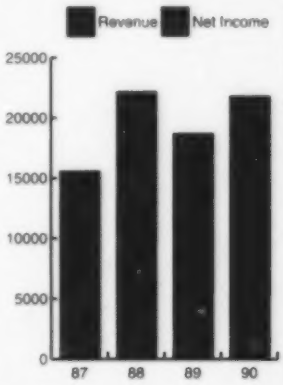
Net Income

Net income allows the Corporation to finance its debt and capital expenditures in the future and maintains the financial stability of the Corporation. This has been achieved in every year since YEC's founding. Net income was $5.3 million in 1990 as compared to $5.5 during 1989. Net income is regulated by the return on its common equity granted by the Yukon Utilities Board.

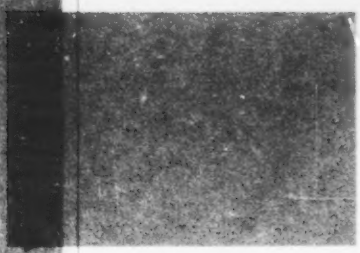
Capital Expenditures

Capital expenses are necessary to ensure that adequate generating capacity is available and that the Corporation's capital equipment is improved and maintained. YEC's capital expenditures were $4.7 million during 1990, compared to $6.4 million in the previous year.

FINANCIAL SUMMARY
in thousands of dollars
87 totals are for 9 months only
89 totals reflect rate decrease effective April 1, 1989



YEC's assets include nearly 500 kilometres of 138-kilovolt (kV) transmission lines and 65 kilometres of 69-kV lines.



THE PAST YEAR WAS AN IMPORTANT ONE FOR ENVIRONMENTAL ISSUES. Comments received at the public meetings about the Strategic Plan stressed that environmental concerns should play a major part in making any decisions about future development.

Any power generation project will have some impact on the environment. In developing new sources of supply, we must choose between greater and lesser impact. The only truly environmentally friendly option is the better use of the supplies we have. This means using less power, using it more efficiently and using it only when there are no other alternatives.

Demand Side Management

Demand Side Management is intended to reduce average consumption, decrease peak generating requirements and increase sales during off-hours, all of which mean more efficient use of YEC's resources.

Demand Side Management was supported by the public as one of our first supply priorities. The Corporation proceeded with several public awareness initiatives, including advertisements in local and community newspapers and a series of fact sheets.

YEC officials also travelled to several Yukon communities. They held public meetings in the communities and provided information about the Strategic Plan and Demand Side Management.

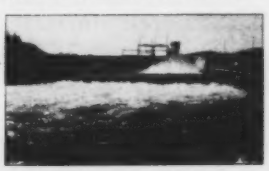
Reducing energy demands can help to defer expensive new development projects and reduce environmental impact. It is hoped that up to five megawatts of capacity can be reduced by the end of the decade.

Regional Development

YEC is investigating the use of alternative energy sources, especially in the communities. An example is Watson Lake, where a wood waste thermal plant could displace the use of diesel. Micro-hydro — such as the privately-owned plant that serves the highways camp at Fraser — and wind generation are two other possibilities.

YEC is currently upgrading their facilities to up-to-date standards. This will bring improved safety for employees and better quality power for consumers.

During the mild summer months, peak and energy demands are approximately 30% lower than in the winter.



PCBs

Another important environmental initiative was the removal of polychlorinated biphenyls (PCBs) that were contained in mineral oil owned by the Corporation. YEC had been storing the oil at a federally regulated site in Whitehorse.

After evaluating several experienced companies, YEC contracted with the firm of ENSR Operations Ltd. of Markham, Ontario for the removal of the PCBs. ENSR has a well-established reputation across the country.

YEC consulted with the City of Whitehorse and various other organizations and individuals, and held a public information session to explain the proposed treatment.

The oil was treated by means of a chemical process that strips the chlorine from the PCBs and leaves behind only harmless sodium chloride and inert polymers. The process does not cause any hazardous emissions of air, water and oil and leaves behind clean, reusable oil. No known PCB-containing or PCB-contaminated equipment has been left in service in the Yukon.

Fish Ladder

The viewing facility at the Whitehorse Rapids fish ladder was upgraded with assistance from the federal and territorial governments. As in the past, the Yukon Fish and Game Association provided staffing for the interpretive centre. The number of visitors increased by more than 160 percent from the year before.

Fish Hatchery

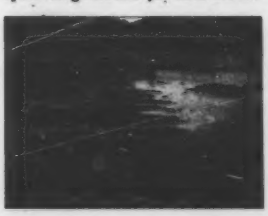
YEC also contributed a large sum to the fish hatchery after the federal Department of Fisheries and Oceans refused to operate the hatchery for the 1990-91 season. Together with the territorial government's Department of Renewable Resources, YEC provided additional guarantees, which permitted the Yukon Fish and Game Association to secure funding for the season's operations.

The Corporation also granted permission for its power line right of way to be used for wood bison habitat. This will provide the public with viewing opportunities and reduce the animals' risk of highway accidents.

Funding assistance for a fishery study on Mayo Lake was also provided. Results of the study will be available in 1991.

Past President Alex Raider (left) and Yukon Premier Tony Penikett officially opened the viewing facility at the Whitehorse Rapids Fish Ladder.

During the reconstruction of the Mayo Dam, YEC excavated channels in the gravels of the Mayo River to provide spawning habitat for lake trout.



AUDITO

To the Board of Directors and the Executive Council Member
Responsible for the Yukon Energy Corporation

I have audited the balance sheet of the Yukon Energy Corporation as at December 31, 1990 and the statements of income, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted an audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material aspects, the financial position of the Corporation as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Raymond Dubois, F.C.A.
Deputy Auditor General for
the Auditor General of Canada

February 15, 1991
Ottawa, Canada

ASSETS

(thousands of dollars)	1990	1989
Capital Assets		
Property, plant and equipment (Note 3)	$ 98,871	$ 96,749
Current Assets		
Cash and short-term investments	4,929	3,164
Accounts receivable	2,133	2,014
Inventories	654	653
Prepaid expenses	227	92
Due from Yukon Development Corporation	—	261
	7,943	6,184
Deferred fuel price adjustment (Note 7)	544	—
Deferred costs	—	29
	$ 107,358	$ 102,962

LIABILITIES

Long-term debt (Note 4)		
Government of Canada	$ 49,650	$ 51,050
Yukon Development Corporation	5,500	5,500
	55,150	56,550
Current liabilities		
Accounts payable (Note 6)	2,269	2,076
Interest payable	1,036	1,065
Due to Yukon Development Corp.	57	—
Current portion of long-term debt (Note 4a)	1,400	1,400
	4,762	4,401
Contributions for extension to plant	265	140
	60,177	61,091

SHAREHOLDER'S EQUITY

Share capital (Note 5)	39,000	39,000
Contingency reserve	2,250	2,250
Retained earnings	5,931	621
	47,181	41,871
	$ 107,358	$ 102,962

Approved by the Board:

Chairperson

Director

STATEMENT OF INCOME AS AT DECEMB

(thousands of dollars)	1990	1989
Revenue		
Sale of Power	$ 21,235	$ 18,675
Other	70	81
	21,305	18,756
Expenses		
Operation and maintenance	7,042	4,992
Amortization of Capital Assets	2,583	2,136
Administration	1,776	1,386
Management Fee	695	674
Amortization of deferred costs	29	114
Board Expenses	22	24
	12,147	9,326
Operating income	9,158	9,430
Financial expense (income)		
Interest expense: on long-term debt	4,580	4,545
other	77	200
Interest income	(841)	(599)
Gain on sale of capital assets	—	(19)
	3,816	3,927
Net income	$ 5,342	$ 5,503

(thousands of dollars)	[illegible]	1989
Balance at beginning of year	$ [illegible]	$ 3,223
Add: Net income	5,342	5,503
	[illegible]	8,726
Deduct:		
Power rate relief subsidy payments (Note 2f)	32	482
Dividends	—	7,623
	32	8,105
Balance at end of year	$ 5,931	$ 621

STATEMENT OF CHANGES IN FINANCIAL POSITION: DECEMB

(thousands of dollars)	1990	1989
Cash provided from operating activities		
Net income	$ 5,342	$ 5,503
Items not requiring an outlay of cash		
Amortization of capital assets	2,597	2,136
Amortization of contributions	(14)	(4)
Amortization of deferred costs	29	114
Gain on disposal of fixed assets	—	(19)
Change in non-cash components of working capital	367	2,078
	8,321	9,808
Cash required for investing activities		
Addition to capital assets	4,722	6,461
Proceeds from disposal of capital assets	(3)	(802)
	4,719	5,659
Cash provided from (used in) financing activities		
Contributions for extension to plant	139	79
Deferred fuel price adjustment	(544)	—
Issue of long-term debt	—	5,500
Repayment of long-term debt	(1,400)	(1,400)
Power rate relief subsidy payments	(32)	(482)
Dividends paid	—	(7,623)
	(1,837)	(3,926)
Increase during the year	1,765	223
Cash and short-term investments		
Beginning of the year	3,164	2,941
End of the year	$ 4,929	$ 3,164

The Corporation was established under the Yukon Business Corporations Act in March 1987 and is a wholly owned subsidiary of the Yukon Development Corporation, a Crown corporation. The Yukon Energy Corporation was granted a public utility franchise and was formed to acquire and operate the assets of the Northern Canada Power Commission in the Yukon, which were acquired on March 31, 1987. The Corporation entered into a management agreement with The Yukon Electrical Company Limited and its parent, Canadian Utilities Limited, for the operation of these facilities.

The Corporation is engaged in the generation, transmission, distribution and sale of electric energy in the Yukon Territory, and is regulated by the Yukon Utilities Board, which administers acts and regulations covering such matters as rates and accounting.

Under the terms of the management agreement, Canadian Utilities Limited has to account to the Corporation, on a monthly basis, for the income from the sale of electricity and the expenses incurred in operating, maintaining and managing the system. The income from sale of power and the related operation, maintenance and administration expenses included in the statement of income reflect this accounting from Canadian Utilities Limited.

The more significant accounting policies of the Corporation are as follows:

a: Inventories

Inventories are valued at lower of cost and replacement value.

b: Capital assets

Property, plant and equipment are stated at cost less accumulated amortization. Provisions for amortization are based on the straight line method over the estimated economic life, which for the principal classes of assets are:

Generation		Distribution	20-30 years
Hydro-electric plants	40-65 years	Buildings	20-30 years
Diesel plants	15-25 years	Office and	
Transmission	25-35 years	general equipment.	5-15 years

The Corporation includes in the cost of additions an allowance for funds used during construction at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are recorded when received from customers and are amortized on the same basis as, and offset the depreciation charge of, the assets to which they relate.

c: Revenue recognition

Revenue from sale of power is accrued in respect of electricity delivered but as yet unbilled. Significant additional revenues or refunds resulting from Yukon Utilities Board decisions are recorded in the year to which they relate.

d: Deferred costs

Legal and professional fees related to the acquisition and evaluation of assets of Northern Canada Power Commission were amortized over three years from the date they were incurred. As at December 31, 1990, these costs had been fully amortized.

e: Deferred fuel price adjustment

The Corporation is authorized by Order in Council 1988-150 to adjust its rates to reflect fluctuations in the price of diesel fuel, in accordance with procedures determined by the Yukon Utilities Board. Consequently, the Corporation may defer significant fluctuations in diesel fuel expense due to unusual circumstances or events, and regulate that the deferred amount be recovered over a specific future period through revised rates to be charged to customers.

f: Contingency reserve

The Corporation maintains a reserve for uninsured losses and additional costs from low water levels or shutdowns. Appropriations to or withdrawals from this reserve will be reflected in the statement of income.

g: Power rate relief subsidy payments

In accordance with the Yukon Development Corporation Regulations, the Yukon Energy Corporation undertook to administer, on behalf of the Government of the Yukon, a power rate relief program for the benefit of residential and commercial power consumers in the Yukon equivalent to the Federal Power Support and Commercial Rate Relief programs previously financed by the Government of Canada. The cost of the subsidy programs is treated as a return of equity in accordance with the regulations and is charged against retained earnings.

Effective April 1, 1989, both subsidy programs were discontinued, as the revenue/rate structure now in effect accomplishes the same rate relief goals.

Future subsidies, if any, will be paid as directed by the Government of the Yukon and charged to retained earnings as required by regulation.

3. Property, plant and equipment

(thousands of dollars)	Cost	Accum. Amort.	Net 1990	Net 1989
Hydro-electric and diesel plants	$ 93,342	6,454	86,888	85,773
Transmission	7,579	1,145	6,434	6,323
Distribution	3,513	435	3,078	2,500
Buildings, office and general equipment	1,906	1,814	1,738	1,701
Land	86	—	86	86
Work in progress	647	—	647	366
	$ 107,073	8,202	98,871	96,749

Included in work-in-progress is $48,000 (1989 - $64,000) as an allowance for funds used during construction.

4. Long-term debt

a: Government of Canada

The following debt was part of the consideration given in 1987 to acquire the assets of the Northern Canada Power Commission.

(thousands of dollars)	1990	1989
Flexible term note 7% maturing January 1, 2028	$ 37,250	$ 38,250
Term note 9% maturing March 31, 1997	15,200	15,600
	52,450	53,850
Less payments made in the year	1,400	1,400
	51,050	52,450
Portion due within one year	1,400	1,400
	$ 49,650	$ 51,050

Payments of principal under the terms of the original $40 million flexible term note are annual instalments of $1 million commencing December 31, 1988. The terms of the flexible term note also provide for payments of principal and interest to be deferred and abated respectively if sales of power on the Whitehorse-Aishihik-Faro electric power distribution system are less than specific amounts.

Payments of principal under the terms of the original $16 million term note are nine annual instalment of $400,000 that commenced March 31, 1988 with the balance due on March 31, 1997.

Canada has been provided with security for these debt obligations in the form of a mortgage against the acquired assets.

b: Yukon Development Corporation (YDC)

The long-term debt of $5.5 million to YDC was issued on July 31, 1989 and bears interest at 11 ⅛ %, which was the Corporation's estimate of its long-term borrowing rate at that time. This debt is unsecured and with no specific terms of repayment.

5. Share capital

Authorized share capital consists of an unlimited number of a single class of shares with no par value. Yukon Development Corporation purchased all of the 3,900 issued and outstanding shares for a total consideration of $39 million.

6. Rate Matters

In a final decision dated October 20, 1989, the Yukon Utilities Board set revenue requirements for 1989 and 1990. This decision resulted in a revenue refund of $447,000, which was recorded in accounts payable in 1989. This balance has been refunded in the current year.

The Corporation also effected periodic adjustments to take into account rate stability. Such adjustments in 1989 resulted in revenues in excess of requirements of $1.03 million to be refunded to customers by adjustment on subsequent utility billings. The balance had been refunded by year end.

7. Deferred fuel price adjustment

During 1990 the Corporation's diesel fuel expenses were $544,190 in excess of budgeted costs. Under normal circumstances this amount would be recovered from consumers through the application of a fuel price adjustment in the subsequent year. This variance, however, resulted from the war in the Persian Gulf and the Corporation has decided to delay recovery from electrical consumers until after 1992.

8. Commitments

A management agreement for a term of five years was entered into on March 31, 1987 between Canadian Utilities Limited, The Yukon Electrical Company Limited and Yukon Energy Corporation for The Yukon Electrical Company Limited to operate the purchased assets. The agreement provides for a fee of $648,000 per year, adjusted annually by 80 percent of the percentage change in the consumer price index. The amount paid in 1990 was $695,000 (1989 -$674,000).

The estimated cost of completion for the capital projects approved and carried over into the next fiscal year is $1,830,000 (1989 – $2,245,000). At December 31, 1990 the Corporation had $1,350,000 (1989 – $739,000) in outstanding contractual obligations on capital projects.

9. Related party transactions

a: In addition to the transactions described in Notes 4, 5 and 6, the Corporation has significant transactions with The Yukon Electrical Company Limited. These transactions and resulting balances comprise:

(thousands of dollars)	1990	1989
Sale of power	$ 11,292	$ 9,352
Accounts payable	194	—
Accounts receivable	—	716

b: The company also pays interest to its parent company, Yukon Development Corporation. During 1990 this amounted to $629,000 (1989 - $400,000). This interest arises from a loan made to the Yukon Energy Corporation at market rates of interest (see note 4b) and from inter-company balances which arise from time to time.

10. Economic Dependence

A significant portion of the Corporation's sales are to one major customer, Curragh Resources Inc., as summarized below:

	1990		1989	
(thousands)				
Sales (kWh)	178,300	43%	154,500	40%
Revenue ($)	7,294	33%	6,557	35%

11. Contingencies

One of the Corporation's major customers has filed a statement of claim with the Yukon Supreme Court claiming that the Corporation over-charged for power from the period January 1987 to November 1987. The Corporation has filed a statement of defence. The amount of the liability, if any, cannot be reasonably estimated at this time nor can the likelihood of the loss occurring be determined. Consequently, no amount has been accrued in these financial statements. Should a loss occur it will be accounted for as a prior period adjustment.

A major customer is currently disputing the selling price of additional energy supplied during the year. No amount has been recorded in the financial statements to reflect the additional amount billed since the receivable, is any, cannot reasonably be estimated at this time, nor can the likelihood of the gain occurring be determined.

12. Trust Funds

The Corporation holds in trust amounts to be refunded to residential consumers in respect of Federal and Territorial Income Tax paid by The Yukon Electrical Company Limited and subsequently rebated. Interest earned on the fund will also be refunded to consumers.

(thousands of dollars)	1990	1989
Balance at beginning of year	$ 493	—
Funds received during the year	700	963
Interest earned	75	55
Paid out	(800)	(525)
Funds held at the end of year	$ 468	$ 493

These amounts are not reflected in the financial statements.

13. Comparative figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

DIRECTORS AND STAFF:
as at December 31, 1990

BOARD OF DIRECTORS

Chairperson	Fred Berger
Vice-chairperson	vacant
Directors	Tim Koepke Doug McArthur JoAnne Braga Charles Sanderson Joan McCurry Carol Geddes Al Kapty Alex Raider

OFFICERS

President	Alex Raider
Corporate Secretary	Eric J. Woodhouse
Corporate Treasurer	Michael D. Sweatman, C.A.
Senior Utility Engineer	John F. Maissan, P.Eng.
Administrative Officer	vacant

AUDIT COMMITTEE

Chairperson	Charles Sanderson
Members	Tim Koepke JoAnne Braga Michael Sweatman (ex officio)

AUDITORS

Auditor General of Canada

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